

Financial Data Classification and the Chart of Accounts

Commonwealth of Virginia Fiscal Fundamentals
Financial Data Classification and the Chart of Accounts

Introduction

State Policy

- Code of Virginia § 2.2-803: DOA is responsible for financial data classification and coding structures for agencies and institutions.
- DPB creates agency, program, and expenditure classification structures.
- DOA devises or must approve all other financial classification structures.
- DOA may delegate authority to agencies to update some data classification and coding structures.
- CARS input must contain specified minimum coding.

Fund Accounting

- COV uses fund accounting.
- COV accounting records are divided into funds.
- Fund: An independent fiscal and accounting entity with a self-balancing set of accounts recording assets, liabilities, fund balance, and operating accounts.
- COV classifies funds according to GAAP per Governmental Accounting Standards Board (GASB) Statement 1.
- Each fund is independent of the others.
- Transactions may occur between funds.

Basis of Accounting

CARS = Cash

- DOA policy restricts CARS to cash-basis accounting entries.
- Reminder - Cash is decreased when you process a disbursement even if the payment due date is 30 days in the future.

GLA Structure and Chart of Accounts

- General Ledger Account (GLA) structure and the Chart of Accounts provide means to accumulate accounting information.
- GLA structure and Chart of Accounts are independent of each other.
- The Chart of Accounts is a systematic structure for recording and reporting accounting information.

Chart of Accounts

- The Chart of Accounts has 6 major components:
 - Organization (or Agency)
 - Fund
 - Program
 - Object
 - Revenue Source
 - Project

Independence of Components

- Each component of the chart of accounts is independent for purposes of classifying and reporting data.
- Transaction Codes control which coding elements are required, optional, or not allowed for each CARS transaction (See CAPP Topic 60103 Exhibit 1).

General Ledger Accounts (GLAs)

Operating GLAs in Government

Private sector accounting (as taught in most accounting courses) treats operating GLAs differently than governmental accounting.

- Private sector: Each revenue or expense has its own GLA.
- Government:
 - One "Revenues" GLA subclassified by "Source" Component.
 - One "Expenditures" GLA subclassified by "Object" Component.

GLA Types

GLA Type	Nos.	Description
Assets	100-499	State-Owned Resources
Liabilities	500-799	Debts and Legal Obligations
Fund Balance	800	Fund Balance
Current FY Operations	890-899	Operating Expenditure Plans
	900	Appropriations
	901-956	Expenditures and Other Payments
	960	Estimated Revenues
	961-997	Revenues, Recoveries, and Transfers

More on GLAs

- State Comptroller authorizes and controls the structure, assignment, and use of all GLA codes and titles.
- There are relationships between many GLAs. DOA performs a monthly review of these relationships and also reviews Trial Balance for obvious recording errors. Agency is contacted when problems are noted.

The Chart of Accounts and Its Components

Non-GLA Classification Components

As stated earlier, the Chart of Accounts has 6 major components (one with 4 subcomponents):

- State Government Organizational Unit ("Agency")
- Fund
- Program
- Revenue Source
- Object of Expenditure
- Project
 - Capital Projects
 - Other Statewide Projects
 - Federal Grants and Contracts
 - Agency-Designated Projects

Components of the Chart of Accounts

Organizational Units

Organizational Hierarchy

Assigns each financial transaction to an organizational unit within the state government hierarchy:

- **Governmental Branch or Secretarial Area** (Executive, Legislative, Judicial, or Independent Agency)
- **Control Agency** (some Executive Branch agencies report to a control agency)
- **Agency** (includes all agencies, educational institutions, boards, commissions, and other entities identified by name and agency number in the Appropriation Act)
- **Organization Level 1** (optional)
- **Organization Level 2** (optional)
- **Organization Level 3** (optional)
- **Organization Level 4** (optional)

Major Governmental Units

- Branch or Secretariat
- Control Agency
- Agency

Agency codes in CARS automatically link to their corresponding Secretariat and Control Agency.

“Secretarial Area” Defined

- Highest subdivision of State government for financial management purposes.
- Most report to a Governor’s Cabinet Secretary, who is responsible for overall management and policy direction for a group of agencies.
- Other “Secretarial Areas” are groups of related agencies not in the Executive Branch.

Secretarial Areas

Executive Branch "Secretariats"

- Administration
- Agriculture & Forestry
- Commerce and Trade
- Education
- Finance
- Health & Human Resources
- Natural Resources
- Public Safety
- Technology
- Transportation
- Executive Branch Offices

Other "Secretariats"

- Independent Agencies
- Judicial Branch
- Legislative Branch
- Grants to Non-State Entities

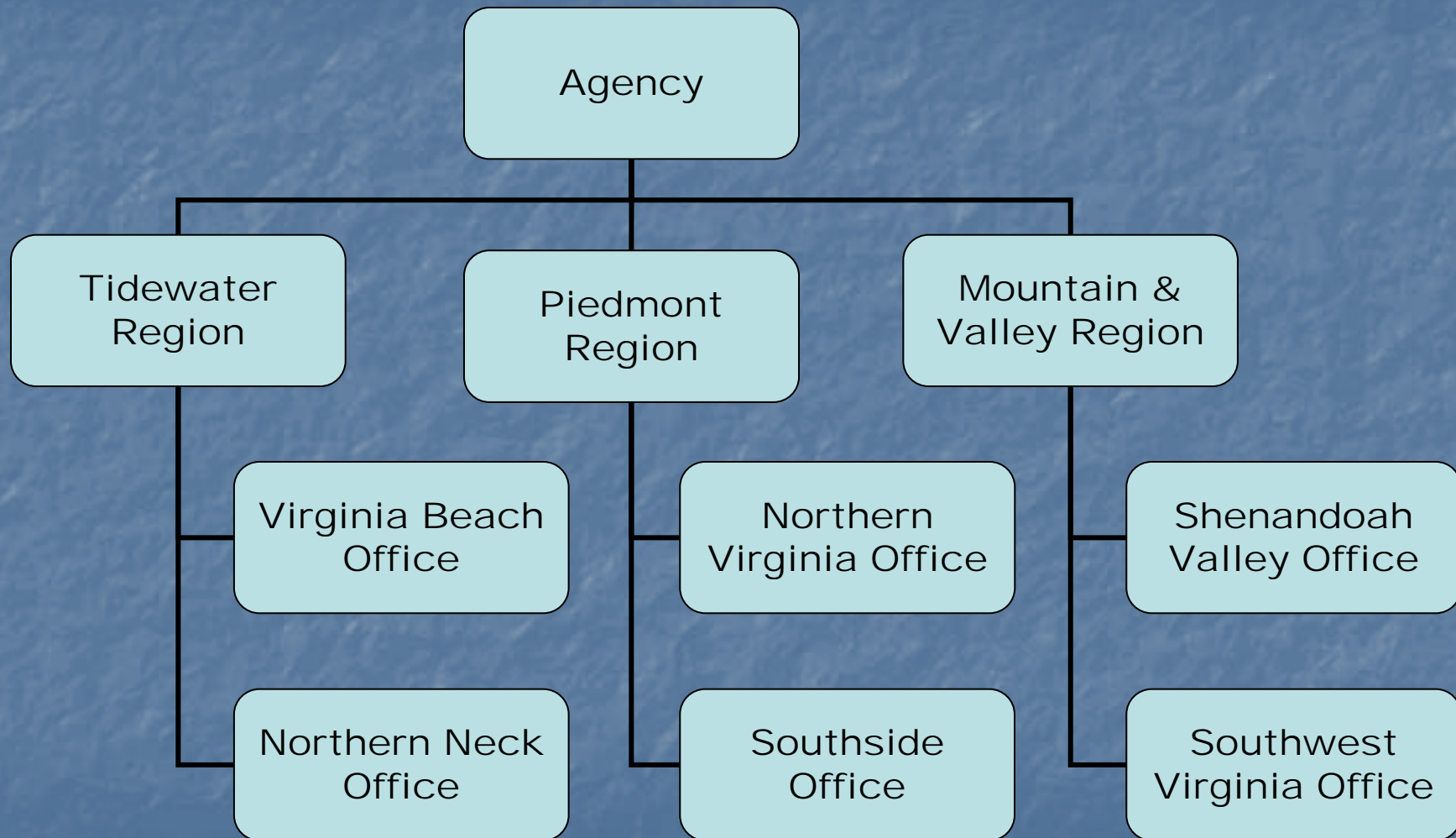
Control Agency

- An agency holding administrative control over other agencies with related functions. Examples:
 - Department of Mental Health, Mental Retardation and Substance Abuse Services
 - Virginia Community College System
 - Department of Corrections

Agency

- A legally-authorized organizational entity through which State services are provided.
- Identified by name and unique 3-digit code in Appropriation Act.
- CARS can report up to 4 levels of an agency's management hierarchy.

Organization Level Codes



Commonwealth of Virginia Fiscal Fundamentals
Financial Data Classification and the Chart of Accounts

Components of the Chart of Accounts

Fund

Funds

- Classify financial data to comply with legal requirements and GAAP.
- Not adjustable for agency reporting purposes.
- Revenues classified by fund as state statues require.
- General Assembly appropriates by fund – expenditures charged against the funds by appropriation.

Fund Codes

- All financial documents need the first 2 digits of the fund component.
- CARS has 10 “funds.” All but the General and Federal Trust Funds are subdivided into “fund details.”
- Although “fund” means different things in different contexts, “fund code” in day-to-day conversation usually refers to a 4-digit number.

The Commonwealth's Funds

<u>Fund Name</u>	<u>Fund No.</u>	<u>Fund Type</u>
General	01	Governmental
Special Revenue	02	Governmental
Higher Education	03	Non-Governmental
Highway Maintenance & Construction	04	Governmental
Enterprise	05	Proprietary
Internal Service	06	Proprietary
Trust and Agency	07	Fiduciary
Debt Service	08	Governmental
Dedicated Special Revenue	09	Governmental
Federal Trust	10	Governmental
General Fixed Assets	15	Account Group

Fund Details and "Fund Codes"

<u>Fund Group</u>	<u>Fund Detail</u>	<u>Group Number</u>	<u>Detail Number</u>	<u>"Fund Code"</u>
Debt Service	9(b) Debt Service – Construction Costs	08	11	0811
Debt Service	9(c) Debt Service – P&I Payments	08	12	0812
Debt Service	9(c) Debt Service – Construction Costs	08	13	0813
Debt Service	9(d) Debt Service – P&I Payments	08	14	0814
Debt Service	9(d) Debt Service – Construction Costs	08	15	0815
Debt Service	VCBA 21 st Century Program – Construction	08	17	0817
Debt Service	VPBA Projects	08	20	0820
Debt Service	VPBA Projects – Interest	08	21	0821

Components of the Chart of Accounts

Program

Program Budgeting

- This component supports DPB in program budget formulation and control.
- DPB controls program structure, which DPB can adjust to meet agency management needs.

“Program” Defined

- A “program” is an ongoing set of activities for achieving specific state policy objectives. For example:
 - Accounting and Budgeting Services *
 - Administrative and Support Services *
 - Air Transportation System Planning
 - Criminal Justice Training, Education, and Standards
 - Historic Landmarks and Facilities Management
 - Pre-Trial, Trial, and Appellate Processes
 - State Education Services for Special Education

* These programs summarize expenditures across agency and fund lines.

More on Programs

- Ongoing activities for which resources are allocated (the appropriation process) and expenditures recorded.
- Relate to Expenditure and Expenditure Refund GLAs only.
- Usually do not change during a biennium.
- Independent of project, except capital projects (restricted to Program 998).

Program Classification Structure

The two highest levels of the program hierarchy (Function and Subfunction) are stored in CARS and are “invisible” when entering CARS transactions.

Functions

- General Government
- Administration of Justice
- Education
- Enterprises
- Individual and Family Services
- Resource & Economic Development
- Transportation
- Undesignated Programs, Clearing Accounts

Programs and Subprograms

- DPB controls the codes.
- DPB determines valid programs and subprograms for each agency and institution under General Assembly authority.
- Change requests go to DPB Director in writing.

Establishing Elements

Elements are used to subclassify program/subprogram data for internal management purposes.

Send request to establish an element code to DOA and include:

- Valid program/subprogram Code
- 2-digit element code
- Title

Element code requested cannot be in use by another agency.

Commonwealth of Virginia Fiscal Fundamentals
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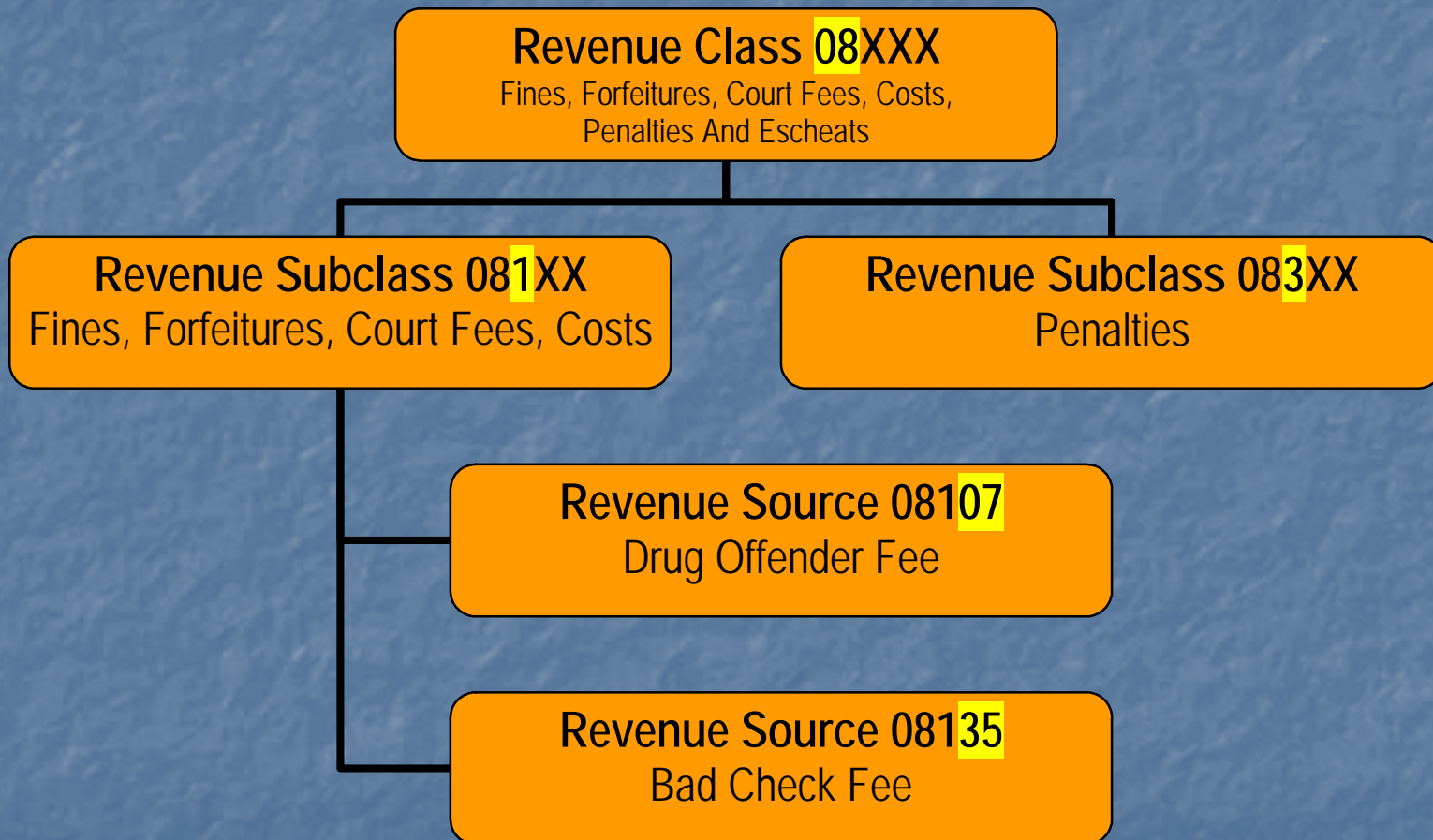
Components of the Chart of Accounts

Revenue Source

Revenue Source

- Identifies revenues collected, such as:
 - Alcoholic Beverage Control profits
 - Civil penalties for improper solid waste disposal
 - Higher education tuition
 - Interest on investments
 - Jamestown Settlement admission receipts
 - Motor vehicles sales and use tax
 - Optician regulatory fees
 - Seafood industry licenses and permits
- DOA can adjust the revenue source structure somewhat to meet agency management needs.

Revenue Source Structure



Revenue, Fund, and Program

- Each Revenue Source is assigned to one or more funds.
- For Federal Grants, Revenue Source Code = Federal program code (CFDA number).
- Revenue Source Codes for Federal grants with no program code are entitled “Other Assistance — XXX” where XXX is Federal grantor agency.
- Program and Revenue Source are independent. Some programs relate coincidentally to revenue sources on a 1-to-1 basis.

Commonwealth of Virginia Fiscal Fundamentals
Financial Data Classification and the Chart of Accounts

Components of the Chart of Accounts

Object of Expenditure

About the Object Structure

- Specifies types of expenditures.
- Supports statewide reporting – not adjustable to meet agency needs.
- Some agency-based accounting systems use alternate classifications. Fiscal Officers must have accurate and complete cross-reference to the Object structure.

About Object Codes

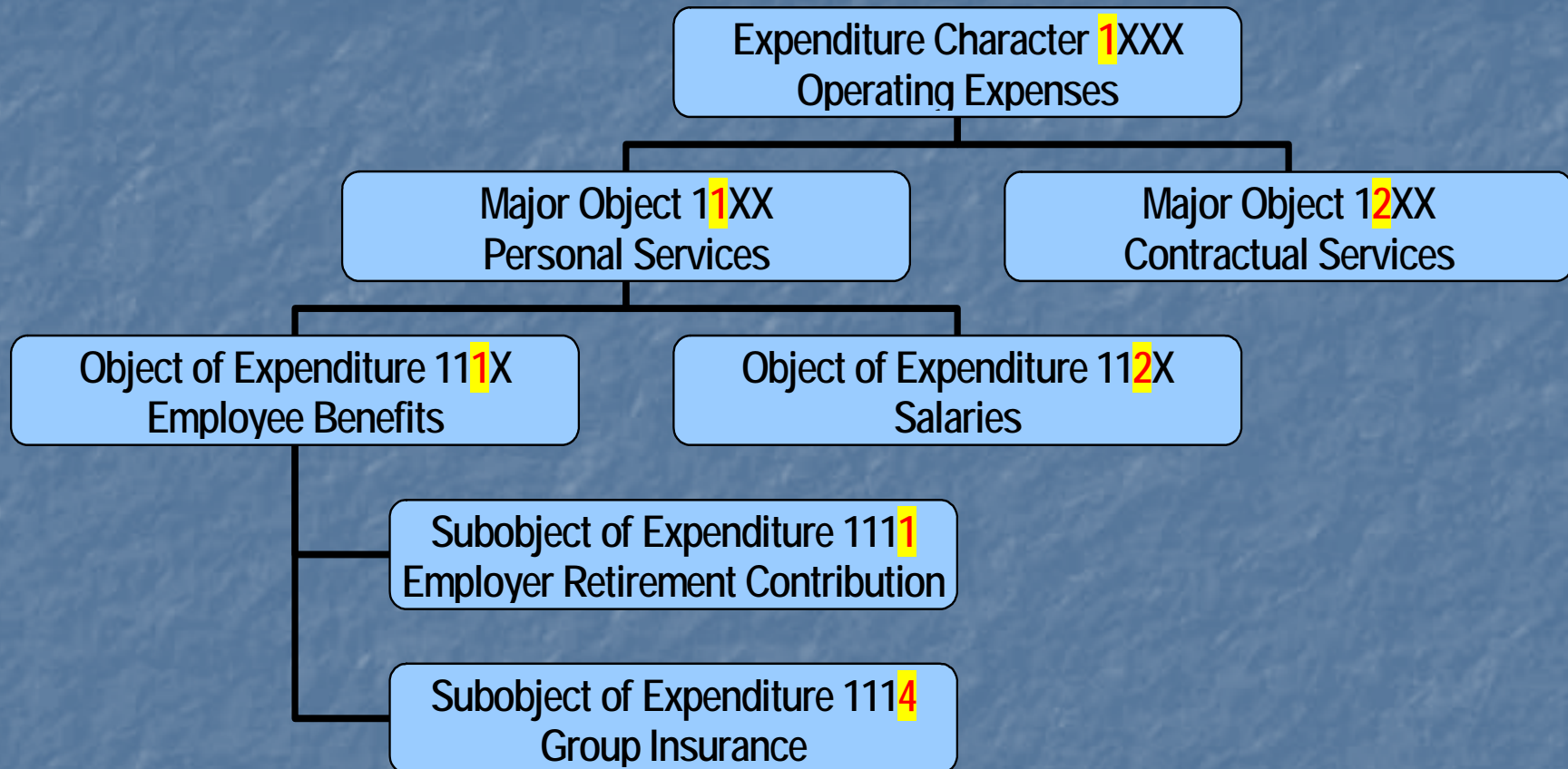
- 4-digit numbers
- DPB-defined
- Also called “expenditure codes”
- Fit systematic classification structure
- Used for accounting control, financial management, and budgeting

What did you pay for?

A few examples:

- Acquisition of rights-of-way
- Boiler and machinery insurance
- Bond issuance fees
- Laboratory supplies
- Overtime wages
- Printing services
- Travel in state vehicles
- Workers' Compensation awards

Object Structure



Object? Subobject?

In ordinary day-to-day conversation, "Object" and "Subobject" are used interchangeably to refer to the 4-digit code required by CARS transactions.

Components of the Chart of Accounts

Projects

Project Hierarchy

- Project Type:
 - 1 – Federal Grant
 - 2 – Contract
 - 3 – Capital Project
 - 4 – Other State Project
- Project
- Task
- Phase

Project Code Users

A multiple-purpose coding structure:

- **Agency Uses:** Federal grants, contracts, non-capital projects. Can report activities within a program or alternate fiscal periods (e.g., Federal fiscal year).
- **State Uses:** Capital projects and other statewide activities (e.g., costs of emergency services, cleanup, and disaster relief related to a hurricane or similar event).

Project Relationships

	Project Type	Valid Numbers	Created By	Related Information
Federal Grant	1	40000-69999	Fiscal Officers	
Contract	2	70000-99999	Fiscal Officers	Any other grants, agreements, or projects,
Capital Project	3	10000-39999	DPB	Program always = 998
Other Statewide Project	4	00001-09999	VDEM	Emergency services, cleanup, and recovery from a hurricane or similar disaster

Agency Projects and Reports

- Agencies create project codes (type 1 or 2).
- Reports track money by State and Federal fiscal years for Federal Grants and Contracts.
- Task and/or Phase can be used to classify agency projects by Federal FY or another scheme.
- "Funding Fiscal Year" (required on all CARS transactions) = the State fiscal year.
- Project/task/phase structure is for reporting purposes only. No appropriation or cash control at this level (except for capital outlay projects).

Entering Project/Task/Phase

Two options:

1. Enter directly into CARS transaction.
2. Embed Project/Task/Phase in Cost Code Table, then enter Cost Code directly into CARS transaction.

Management Reporting and Certification

Operating Expenditure Plans

- CARS reports budget and expenditure at levels (agency, fund, program, and capital project) that reflect state law and policy.
- CARS also can produce reports for internal management, using:
 - State-level data elements (agency, fund, program, capital project, FIPS)
 - Optional codes you control (organization levels 1-4 and project/task/phase)

Interim Management Reports

- As a fundamental internal control, send cost center information to senior management, the agency head, and/or the governing board – Can be from CARS or internal agency-based system.
- Establish a schedule for cost center reporting.
- Management reports should have appropriate detail and/or summarization, depending on the level of management hierarchy being informed.
- An alternative is "management by exception" (focus on important variances from budget).

Certifying Reports

- Fiscal Officers must certify monthly that agency GLA balances and transaction details in CARS (entered online or by any other means) are correct and have been reconciled to agency records.
- Agency heads and fiscal officers should require that each cost center manager submit written certification that their unit reports are correct.

Other CARS Codes and Tables

CARS Tables

- CARS is a table-driven system.
- CARS tables:
 - Define valid codes
 - Provide a text title for each code on reports
 - Define financial posting criteria and edits
 - Enable CARS to edit transactions and detect many basic error types.

Transaction Codes

- Transaction codes are 3-digit numbers that uniquely identify each accounting event. For each transaction type, they:
 - Identify GLAs to be posted and “keep the books balanced.”
 - Identify transaction-specific edits.
 - Identify financial files to be updated.
- DOA creates all transaction codes.

Cost Codes

- Facilitate data entry
- Not used as reporting elements themselves
- Retrieve other codes from "Cost Code Table"
- Use depends on reports needed

Cost Code = CARS "Shortcut"

- Cost Codes retrieve combinations of data elements from the Cost Code Table
- Elements in the Cost Code Table are combinations of:
 - Organization Levels 1, 2, 3, 4
 - Project, Task, Phase
 - FIPS

Does Cost Code = Cost Center?

Not necessarily.

- It depends on how your organization defines "cost center."
- For any "cost center" identifiable by unique combination of organization level and/or project/task/phase and/or FIPS, Cost Code = "cost center."

Mid-Year Cost Code Changes

- When CARS reads a cost code, it pulls related codes from the Cost Code Table and puts them into the transaction.
- CARS reports reflect only codes in the Cost Code Table at the time the financial entry posted.
- During the year, new cost codes may be added to the table.
- Midyear cost code changes may make data inconsistent for comparison purposes. Consider this before making mid-year changes in your Cost Code Table!

FIPS Codes

- Federal Information Processing Standards (FIPS) include numeric codes that identify each U. S. state and its political subdivisions, including each county and independent city in Virginia.
- CARS uses these “FIPS Codes” to track:
 - State payments to local governments that support local operations (including public schools) and constitutional offices.
 - Revenues paid into the State Treasury by State agencies and institutions that were received or collected from cities, counties, or towns.

FIPS / Payments to Localities

Payments to localities that need FIPS Codes:

- Categorical aid, such as welfare assistance, circuit court supplements, and street and highway maintenance.
- Payments in lieu of taxes, such as direct payments to localities for providing police and fire protection and refuse collection.
- Non-categorical aid, such as rolling stock taxes, mobile home taxes, and profits from the sale of alcoholic beverages.

Purchases of goods (surplus equipment) and services (rent or utility service charges) from localities do not need FIPS.

Vendor Edit Table

- Stores and allows retrieval of:
 - Vendor ID Number (VIN)
 - Vendor name and address
 - Employer ID Number / Social Security Number
 - Federal Information Processing Standards (FIPS) Code
- Identifies participants of Financial EDI Program

Vendor Edit Table Information

- Fiscal Officers should allow online update to 1 or more staff.
- **Segregate duties** between those who maintain the Vendor Edit Table and those who process payment transactions.
- DOA enters Financial EDI vendors under "Agency 000." Agencies may have inquiry access to view records under Agency 000 except for records under a SSN.

References

- CAPP Manual Section
 - 60100, CARS – All Topics

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